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THE DOLLAR

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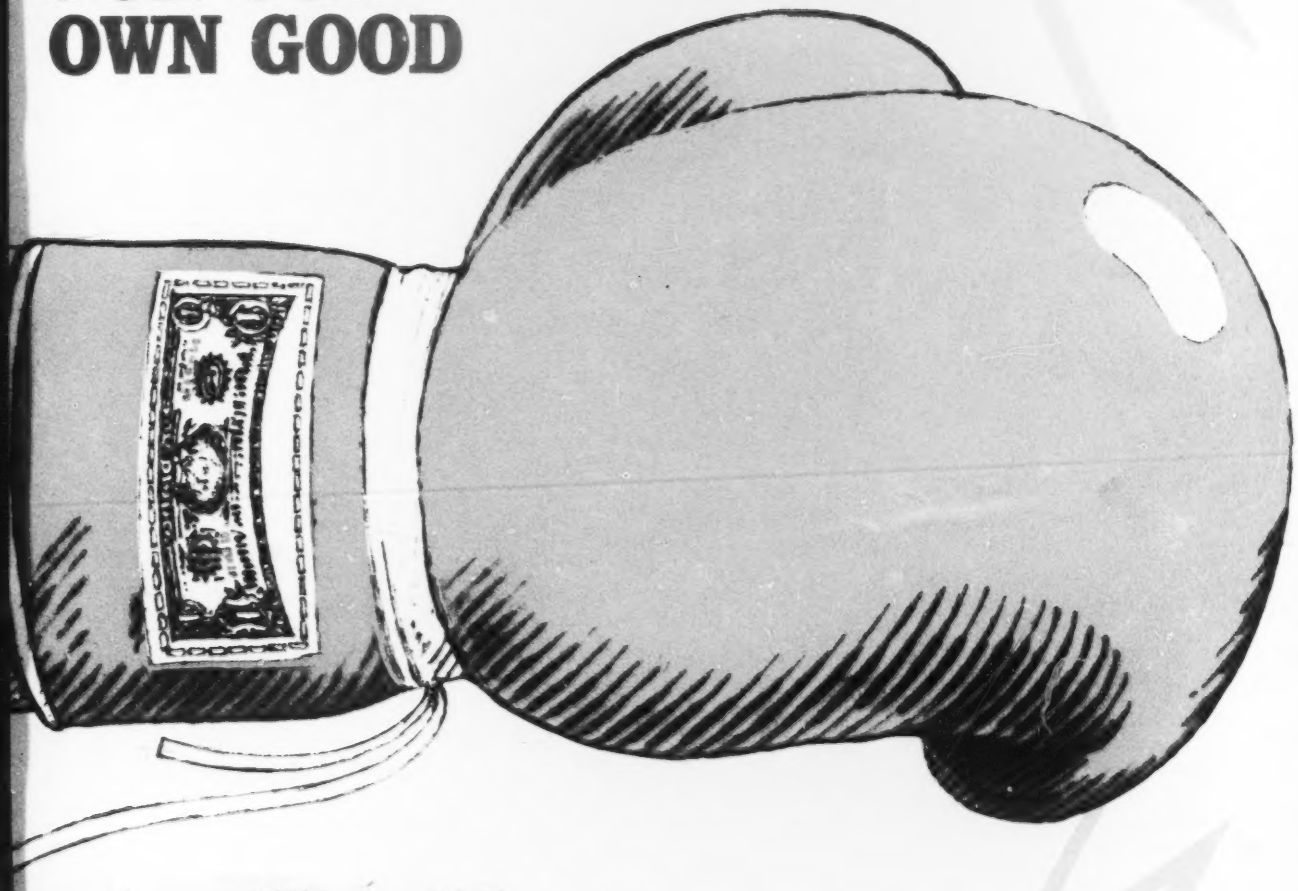

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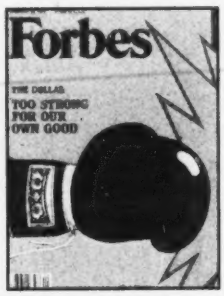

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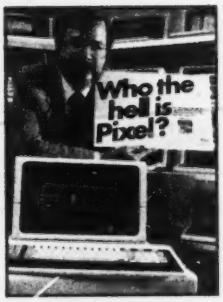

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Follow-Through

Prices and paychecks

In mid-1979, when the inflation rate had climbed to an ominous 9%, FORBES drew up a table that traced what that single-digit rate would do to the cost of living *(June 11, 1979)*. A one-family house, for example, would go from $68,300 to $158,748 in ten years. Actually, during that year inflation climbed even higher, to an appalling 13.3%, which would have increased the price of that same house to more than $238,000 by 1989. At 13.3% an everyday expense like the monthly electric bill would have gone from $30 to $105 in ten years.

That brings into sharp focus what has been achieved in the last two years by forcing inflation down to less than 4%. At that rate, the cost of a new Chevrolet, calculated at about $8,400 today, is still expected to climb to almost $11,000 by 1989. But that's a far cry from the $20,300 sticker price the same Chevrolet would have reached at 1979's 13.3%. A production worker making $14,000 in 1979 would have to be earning close to $49,000 to keep even with 13.3% inflation. Today, when that same worker is averaging about $17,200 a year, the weekly pay envelope, even at 3.9% inflation, would have to swell to almost $22,500 to stay in step in 1989.

The price of inflation

Items	1979	Ten years compounded at 13.3% rate 1989	1982	Seven years compounded at 3.9% rate 1989
Production worker's salary	$14,006	$48,822	$17,194	$22,474
Monthly electric bill	30	105	47	61
Man's wool suit	238	830	330	431
Chevrolet Impala 4-door	5,828	20,315	8,378	10,951
One-family house	68,300	238,077	80,400	105,090
Auto insurance premium	250	871	321	420
Annual college costs*	2,230	7,773	2,811	3,674

*For state resident.

Sources: Edison Electric Institute, Bureau of Labor Statistics, Hart, Schaffner & Marx, GM, National Association of Realtors, State Farm, American Association of State Colleges & Universities.

The mini-mogul

"We're not the biggest-grossing independent production and distribution company, but we are the most profitable," Roger Corman, president of New World Pictures, boasted to FORBES 14 months ago *(Dec. 21, 1981)*. In 29 years Corman had produced or directed more than 200 films with such drive-in titles as *Eat My Dust*, *Battle Beyond the Stars* and *Masque of the Red Death*. With a salary of more than $1 million a year, Corman at 56 was on top of the world. Then, this month, he sold the whole works.

Why? "I had to gamble more and more of my own money to get the same profits," he says. (Corman has consistently financed his movies out of cash flow.) Last year New World made 12 pictures for about $2 million each and made 30% on each of them. Not as good as a few years ago but better than the big studios' returns. With the majors raising their budgets to the stars, Corman would have to do the same to compete for playing time. "We just had to become bigger to do well against the majors," he says.

While Corman mulled bringing in outside investors, he was approached by three Los Angeles entertainment lawyers who also happened to be producers—Harry Evans Sloan, Larry Thompson and Lawrence Kuppin—with a $16.5 million deal.

Producer-director Roger Corman
Profits speak louder than titles.

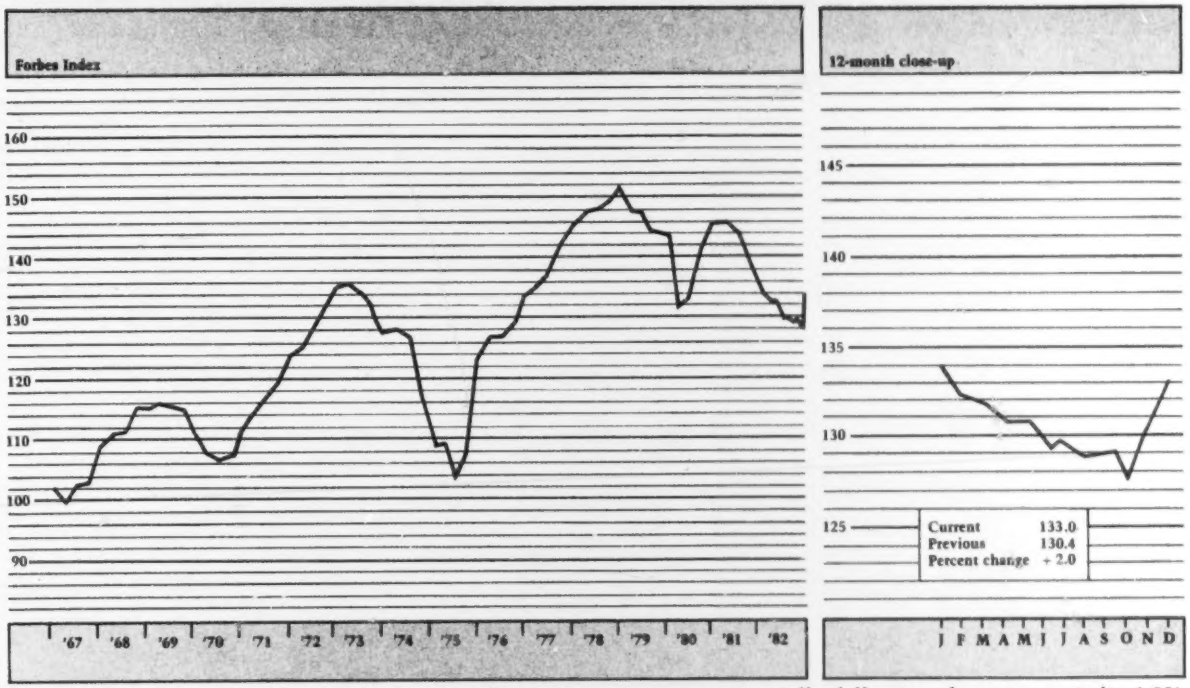
For their money the legal trio will get the name, New World, a 110-title film library and, most important, Corman's distribution company. With 12 branches across the U.S. and Canada, New World has built a market for itself for both independent and fine foreign films. (Corman started with Ingmar Bergman's *Cries and Whispers* in 1973.) "There aren't really any distribution companies that are receptacles for good independent product," Thompson says. He and his partners are betting that New World will fill that void. "We should get the cream of the independent producer," Sloan says. The new owners plan to keep making the same "exploitation films" that New World is known for. The only change will be in the budgets, which will rise to the area of $3 million to $6 million. (Corman's first success, *Monster From the Ocean Floor*, cost $18,000.)

Corman has a two-year contract with the new buyers. The first year he will produce exclusively for New World; the second, he will act as a consultant. "We are also buying Roger's experience and credibility in the marketplace," Kuppin says. Corman may not be famous for great films, but he does make money, no mean feat in today's movie business.

The sound of bugles

A year ago, Texas Instruments' earnings were down 49% and the stock was trading at 79, 9 times 1980 earnings (FORBES, *Mar. 15, 1982*). A cyclical slump in semiconductors, TI's mainstay, was hurting all electronics companies, but the blame fell mainly on the Dallas firm's consumer products. It had just scrapped digital watches after losing millions; its home computer was selling poorly. Competitors and press were slamming TI's marketing ("inept") and its whole management style ("militaristic," "constipated"). "Is it truly time to hang crepe," FORBES asked, "or will the bugles

The Forbes Index



Green light. This is the third gain in a row for the Forbes Index, and it's a strong 2% this time. That's a bullish sign, suggesting a recovery is in the offing or may already have begun. The index hasn't behaved like this since August 1980, when it posted six consecutive gains.

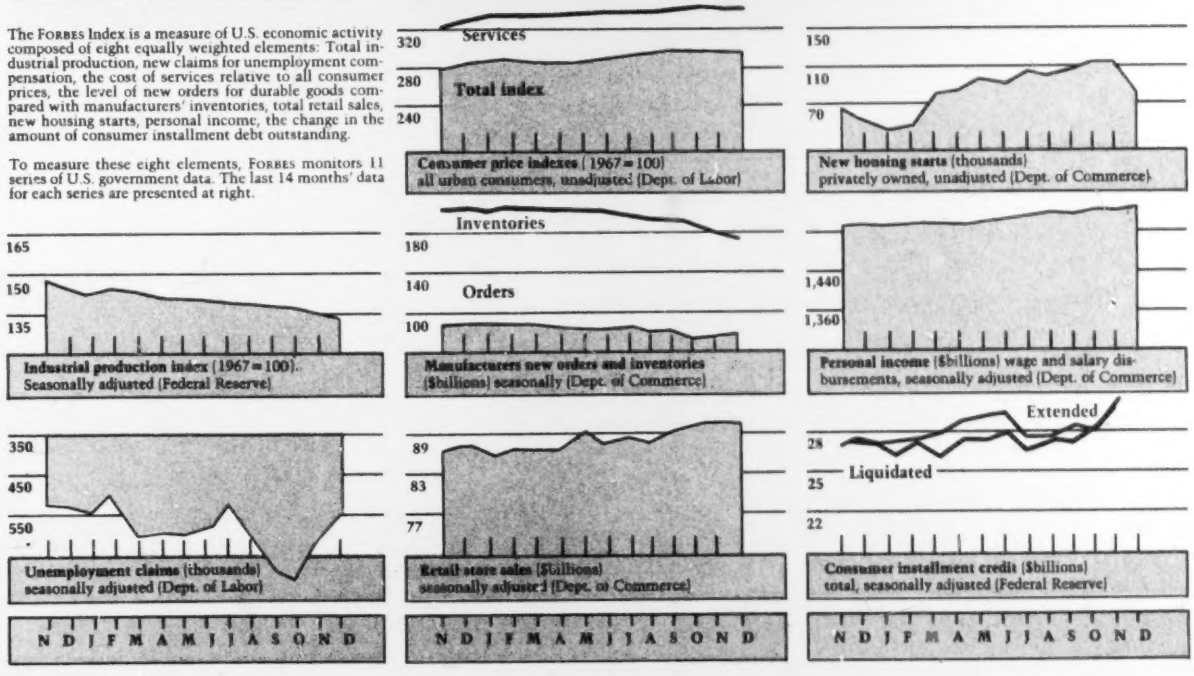
Examine the components of the Index a bit more closely and the picture looks even brighter. The 11.4% drop in unemployment claims in December was the most positive news, especially following the prior period's 8.9% drop. The continuing drop in manufacturers' inventories of 0.9% was equally encouraging.

On balance, what these tea leaves suggest is a much stronger upturn than most economists expect. GNP growth in the first quarter could exceed an annual rate of 5%. And if interest rates stay down, the recovery will last well into 1983.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



The investment performance of most bank trust departments has been legendary—legendarily bad. But that seems to be changing at last.

Bubbling backwater

By John R. Dorfman

COULD IT possibly be that bank trust departments are becoming first-rate money managers? Last year the median investment return of bank trust departments (24.6%) topped that of independent investment counselors (23.5%) for the second year in a row. That hasn't happened since 1975.

Wall Street was astounded when it saw those numbers, published by A.G. Becker. This must be an entirely new breed of bank trust officer. For decades, bank trust departments had been outperformed by mutual funds, insurance companies and independent investment counselors. And for years, no one much cared.

Howard Scribner, a vice president with Chase Investors Management Corp. (the investment arm of Chase Manhattan) remembers how it was: "In the Forties and Fifties we bought stocks and didn't do much with them. No one was comparing performance very much."

But comparisons, in recent years, became the order of the day. And it became very clear that the trust departments had plenty to be modest about. Their ten-year average compound investment return of 6.7% through 1981 trailed by a wide margin that of insurance companies (8.5%) and independent investment counseling firms (8.4%).

Trust department scorecard

There's been a lot of variation in the investment performance of bank trust departments. Listed here are banks with the largest U.S. trust operations (excluding money fund management) plus U.S. Trust Co. of New York, which gets a large proportion of its revenues from trusts.

Bank	Trust assets ($billions)	Equity fund 1-yr return	Equity fund 5-yr return	Fixed-income fund 1-yr return	Fixed-income fund 5-yr return
JP Morgan	$35.2	7.8%*	9.3%*	28.6%*	6.7%*
Citicorp	19.8	10.6	12.4	41.5	6.5
Bankers Trust	19.5	10.5	12.1	32.7	6.8
Mfrs Hanover	17.9	7.5	12.8	33.2	9.4
Chase Manhattan	12.5	12.8	12.3	NA	NA
Continental Illinois	12.5	13.5	12.1	28.7	4.6
Mellon Natl	12.4	5.9	7.0	16.8	2.1
Harris Bankcorp	11.6	11.0	10.0	36.2	4.8
Northern Trust	10.8	13.6	12.2	34.9	6.0
BankAmerica	10.1	–6.4	5.2	30.9	4.8
US Trust Co of NY	9.2	5.9	8.7	19.8	9.9
Average bank	—	11.8	11.1	30.5	6.5
S&P's 500	—	10.0	10.4	—	—
Lehman Brothers bond index	—	—	—	33.5	6.7

Note: Asset totals are as of Jan. 1, 1982. Performance figures are to Sept. 30, 1982.
*Composite of three accounts.

Source: Pensions & Investment Performance Evaluation Report.

Unable to hide that kind of darkness under a bushel, bank trust departments have been steadily losing business to competitors. Erosion was particularly dramatic in management of pension fund accounts—a disastrous loss because pension fund activity is the fast-growing end of the trust business. Roy Schotland, who teaches law at Georgetown University and is a longtime student and critic of the bank trust departments, calculates that banks' market share has fallen from 50% of pension fund assets in 1968 to 34% recently.

What was the matter with the banks? Money and bureaucracy. Not enough money; too much bureaucracy. While Wall Street offered investment managers fat salaries and big bonuses, banks were paying salaries based on the modest standards of the banking industry. "We were a perennial training ground for Wall Street," says Scribner. "To have good people you have to have good salaries."

Alarmed by the loss of business, Chase began treating its investment management section as a separate business about ten years ago so it could offer both base salaries that are competitive with Wall Street and generous bonuses of up to 100% of salary for contributing to superior portfolio performance.

Equally important, says Stephen Canter, president of Chase Investors, is having a lean, streamlined staff, with plenty of autonomy for the individual "players," as Canter likes to call them. "Years ago this operation had 120 people," he says. "Who knows what they all did? Today we have about 60, and 30 of them are mid-career hires we brought in during the last five years."

Other money center banks have followed suit. In 1977 Citibank put its investment unit under the direction of Peter Vermilye, formerly of Alliance Capital. The same year, Manufacturers Hanover Trust put Joseph McElroy in charge of its trust division, and he promptly hired Victor Melone from Prudential to head the investment sector. Manny Hanny has taken some steps to use incentive pay, and is contemplating more.

The latest to join the trend is Bankers Trust Co., which announced a series of organizational changes last month. H. Kent Atkins, who heads the new Investment Management Group, sees a growing tendency toward incentive payment in the banking world, and not just in trust departments. "Quasi-ownership," he

calls it. "If we become more profitable," says Atkins, "we are all going to share in that profitability."

New York-based Cates Consulting Analysts studied trust department compensation at 89 banks. At medium-to-large banks the department head received an average $80,000 in salary. Another 68% got bonuses, with a median bonus of $17,000. The senior investment officer's average salary was $62,000. Only 58% received bonuses, the median being $10,000.

Comparatively modest as those figures are, they do reflect a trend to hire more highly qualified people and pay them more when they produce. The recent sharply improved results suggest that the medicine may be starting to take effect. If the banks keep it up, they may even be able to rebuild their diminished market share.

A novel cure. Some might call it capitalism. ■

In the cash-starved airline industry, a regulatory loophole worth $3 billion is beginning to look like a loaded gun.

Hardball

By Michael Cieply

EVER GET THE FEELING that competition in the airline industry is becoming a bar fight on the bad side of town? This tale will do little to reassure you.

The trouble begins with an unfortunate practice that airline insiders call "plating away." According to the Air Traffic Conference, when Braniff was on the ropes last spring, many travel agents who still booked Braniff validated—or "plated"—Braniff's tickets on carriers that weren't involved in the travel. That is, cash went first, not to Braniff, but to another airline.

Motivation was simple. The cash-receiving plated carrier, which later dispersed the receipts to Braniff, was responsible in the meantime for refunds in case of default. Ticketholders were spared the pain of filing claims under Chapter 11. But that very break in cash flow helped scuttle Braniff. Moreover, the practice violated ATC rules, which allowed validation on as many as 150 different carriers, but only if it were not possible to plate on Braniff.

No agent was ever disciplined for plating away. Tougher enforcement was clearly in order. Instead, the carrier-controlled conference—perhaps loath to offend agents—simply drafted a new rule. As of Dec. 22, 1982, an amendment to ATC Resolution 5.94, which was approved by the CAB, has required the 80% of travel agents using computerized reservations systems to plate on a carrier listed on the itinerary. But, in the precise wording of the resolution, "the servicing carrier may name itself as the ticketing carrier, even though it is not scheduled to participate in the transportation."

Mull that over for a moment. The "servicing carrier" is the owner of the automated reservations system, which, in four of five cases, is American or United. Last year an estimated $18 billion in airline revenues, nearly half the industry total, were sold through American's Sabre and United's Apollo systems, with almost $16 billion belonging to other carriers. It's a commonplace that computer bias helps the host to boost market share. But what's to stop a host from self-plating at will, thus tapping $55 million a day in float for the four-to-ten-week ticket settlement period, while denying that cash to weaker competitors? Perhaps significantly, American rewrote its Sabre protocols on Jan. 13 to tell travel agents that they may, if they choose, simply plate all tickets on the host—American Airlines.

The potential in 5.94 for servicing carriers is as much as $3 billion, with 80% going to American and United. Cost to the airlines financing that float would come to $360 million a year in new interest expense.

Shuddering at such implications, loss-ridden Continental on Jan. 28 submitted an amendment for mail vote to 30 ATC carrier-members. Quick enough to slam the loophole shut? Guess again. Under the ATC's unanimity rule, one "no" vote kills Continental's proposal. United has already decided to say "nay."

"We're trying to put ourselves in the best possible position," says United's marketing vice president John Zeeman. "I won't duck the question. We're going to do everything we can to make sure we have flexibility."

Flexibility to play with competitors' receipts might seem sweet to Zeeman, who likes to assert: "We think our God-given market share ought to be 100%." But pity, to take an example, embattled Pan Am, which relies on travel agents for an estimated 70% of its business. Only last month Pan Am staved off a Friday-afternoon run of rumors among big commercial agents, who began telephoning clients with the "news" that the airline was about to miss its payroll.

The servicing carriers are unlikely

Fertilizer in the Sixties. Then synthetic fibers in the Seventies. Both drowned in overcapacity. Now the same thing has been happening to petrochemicals.

The long morning-after

By Howard Rudnitsky and Martin Love

YOU CAN'T TEACH an elephant to tap dance. Take, for instance, oil companies in the $75 billion petrochemical industry.

Over the last decade, a hefty $25 billion-plus has been invested in new petrochemical capacity, two-thirds by oil companies trying to integrate downstream, one-third by big chemical companies like Dow, Union Carbide and Monsanto. The result: Petrochemicals have been depressed for 2½ years, and the hangover is not over. With the industry operating at just over 65% of capacity—even after shutting down 4% of capacity over the past 18 months—there will have to be more shutdowns and writeoffs.

Most of this will come from oil companies. But chemical companies also have had to cut back. The petrochemical industry "has gone through three phases," says Paul Oreffice, Dow Chemical's CEO. "The first was, 'My God, there's too much capacity.' The second was, 'I wish my competitor would shut down a plant.' The third phase is, 'I better shut down a plant.' " The industry is clearly in phase three now.

Oreffice himself has stopped talking and started retrenching. Dow, a leading petrochemical producer, pulled out of several planned large petrochemical joint ventures last year—including one with Saudi Arabia—and shut down some operations. Partly as a result of such measures, Dow is still profitable in petrochemicals. Not so most of the oil company competition. Gulf alone reported chemical losses of $264 million last year, which included a writedown of $100 million on the sale of specialty chemical facilities. Arco lost $96 million for the year and Shell could report losses of about $20 million in chemicals. Texaco lost $23 million in last year's fourth quarter. Exxon's chemical earnings in 1982 nose-dived by 61% and Mobil was barely profitable. The red ink may well continue in the first half of 1983.

It was only a few years ago that many managements were talking about the glowing prospects in petrochemicals in the 1980s. The oil companies, especially, poured their prodigious cash flow into petrochemical operations around the world. Later, so did the Europeans, Japanese, Canadians and several Third World countries.

Then those glowing growth assumptions proved wrong. "Exxon had Data Resources do a study early last year on what went wrong," says chemical analyst Harry Flavin of Merrill Lynch. The answer: The industry had accepted a 7% to 8% annual growth rate demand projection without realizing that most of it was based on the extraordinary growth of petrochemicals exports subsidized by low U.S. oil and gas prices and an undervalued dollar.

Both U.S. oil prices and the dollar rose, of course, when President Reagan deregulated domestic oil in 1981. Then came the worldwide recession. Result: Annual petrochemical export growth of 25% in 1979 quickly turned

Only a finger in the dike

Though at least 5.6 billion pounds of annual petrochemical capacity has been permanently closed and another 4.6 billion mothballed in the past 18 months, the industry is still awash in excess capacity, particularly in commodities like ethylene and propylene.

Company	Product	Capacity (in pounds per year)	Location
Permanent capacity shutdowns			
Cities Service	ethylene	870 million	Lake Charles, La.
	propylene	410 million	Lake Charles, La.
	low-density polyethylene	725 million	Lake Charles, La.
Exxon	ethylene	900 million	Baton Rouge, La.
	low-density polyethylene	120 million	Baton Rouge, La.
	polypropylene	135 million	Baytown, Tex.
Atlantic Richfield	low-density polyethylene	220 million	Port Arthur, La.
	ethylene	100 million	Carson, Calif.
Firestone	emulsion styrene-butadiene (to close in 1983)	380 million	Lake Charles, La.
Stauffer Chemical	vinyl chloride	170 million	Long Beach, Calif.
	polyvinylchloride	140 million	Long Beach, Calif.
Gulf	ethylene*	660 million	Rotterdam, Neth.
	propylene*	300 million	Rotterdam, Neth.
	styrene*	430 million	Rotterdam, Neth.
Dow	low-density polyethylene	75 million	Gulf Coast; Canada
Temporary capacity shutdowns			
Du Pont (Conoco)	ethylene	870 million	Chocolate Bayou, Tex.
Atlantic Richfield	ethylene	1.3 billion	Channel View, Tex.
	propylene	800 million	Channel View, Tex.
Texaco	ethylene	100 million	Port Neches, Tex.
Shell (May 1981)	ethylene	1.3 billion	Deer Park, Tex.
Dow	low-density polyethylene	240 million	Gulf Coast

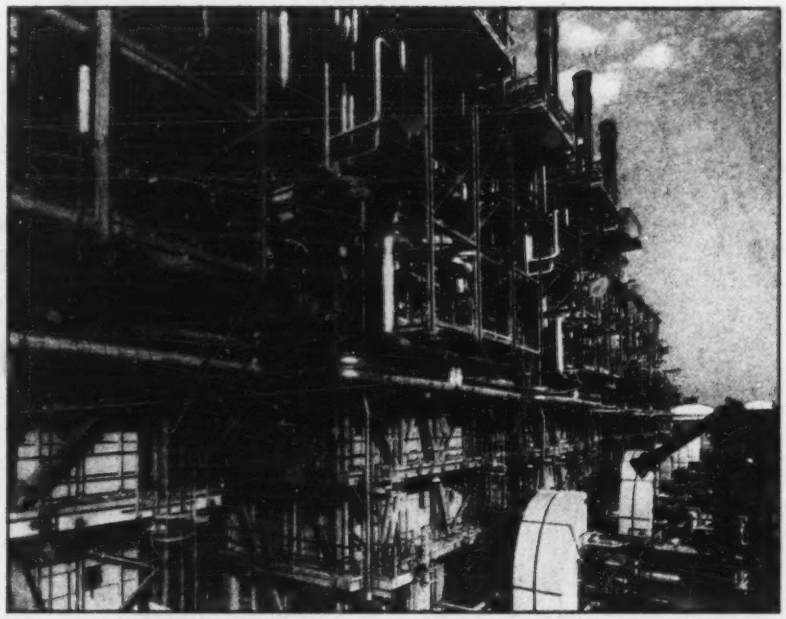
*Sold to Kuwait.

into a negative growth rate last year. Overall growth in the U.S. chemical industry, far from 7% to 8%, has been under 2%. But capacity was increasing by over 5% a year.

Those who may come out best are those, like Dow, who combine strong marketing capabilities with capacity cutbacks. "We have canceled 1.2 billion pounds of expansion in polyethylene that were on the books as firm a year and a half ago," says Oreffice. "In ethylene we have shut down other plants." Others are doing the same, with emphasis on commodity petrochemicals. Some have withdrawn from entire markets—like Cities Service and Arco, which recently abandoned the polyethylene business. Mexico and Canada have also delayed, probably permanently, major plants have been drastically reduced.

An improving economy surely helps but it won't be a cure-all. Says Merrill Lynch's Harry Flavin, "Even when the economy recovers, it's not going to solve the excess capacity problem; 1983 is still going to be a year of shakeout." Something similar happened to the synthetic fibers business in the late Seventies, he says, "and it took five years to shake out. The economy recovered, but fibers didn't. There were just too many strong players. It takes time to shake them out."

Moreover, analyst Flavin, while acknowledging many companies have made significant operating cost reductions, claims new large plants—especially ones built by oil firms—are also more capital intensive. Figure in the cost of capital of plants that may run

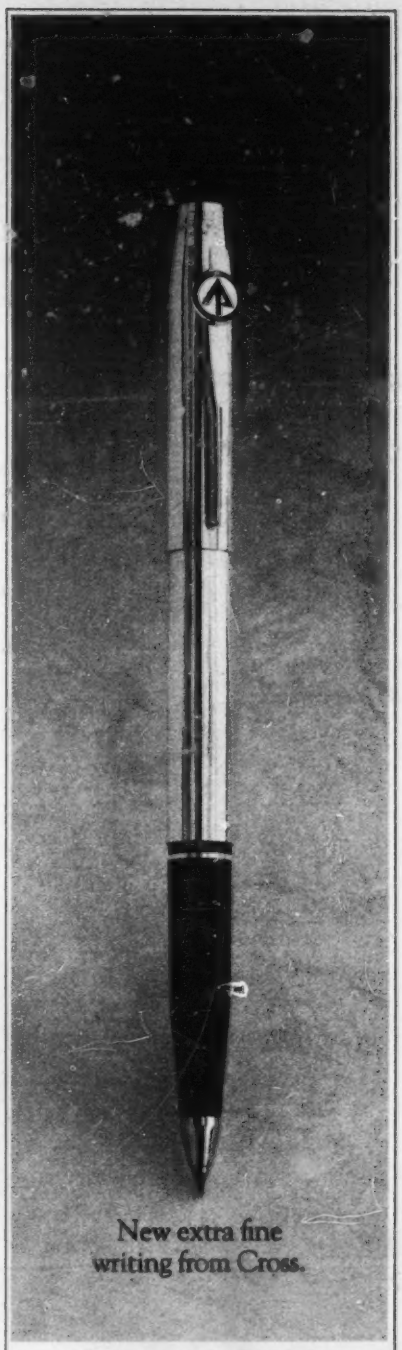


Exxon's olefins plant at Baytown, Tex., completed in 1979
Optimism's high price: a glut in "building block" petrochemicals.

projects that would have come on stream by the mid-1980s. However, Saudi Arabia is going ahead with several big complexes scheduled to be operating around mid-decade.

Many plants shut down "temporarily" may be mothballed for years. Oreffice says many smaller plants have been closed without any announcements, and most will never be reopened. As a result he, for one, is fairly optimistic about the future. Industry break-even levels have been reduced significantly since the mid-1970s, he points out; at Dow it's down to 60% from 70%. Also encouraging are signs of life in autos and housing, both major petrochemical markets. And inventories at petrochemical as much as $500 million, and break-even may not be all that low for many oil companies. "Those big ethylene cracking plants are also heavy feedstock users," Flavin points out. "So they aren't necessarily more efficient than older similar plants—like a natural gas liquids plant—when they are operating at 65% of capacity."

Sums up John Matson, petrochemicals consultant for Houston-based Pace Co., "The good news is that we're at the bottom now in demand and profitability. The bad news is that the bottom will be here for a while." Maybe sometimes you *can* teach the elephant to tap dance. But when it falls on its face, it can cause a mighty commotion. ■



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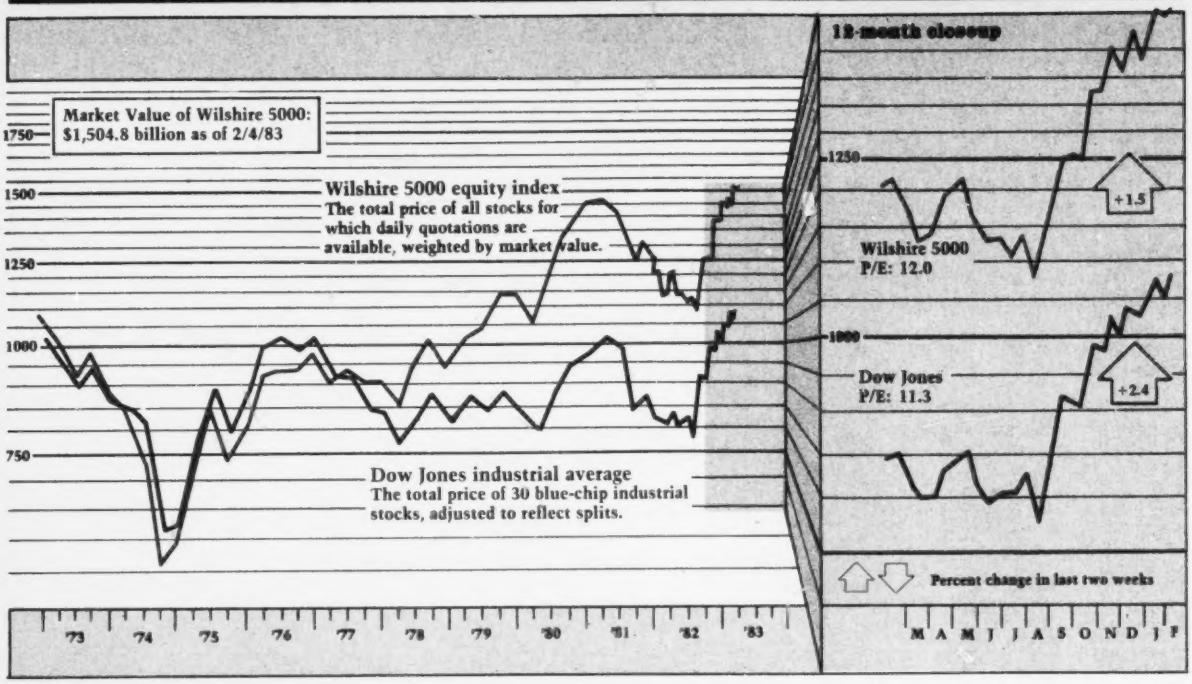


Sweet and sour. After some weakness in mid-January, the market once again started climbing. The Dow was recently within 1.4% of testing its alltime closing high of 1092 and the Wilshire less than 1% away from reaching its high. Nevertheless, the unevenness of the recent advance indicates a possible shift in investor tastes. For the first time since the start of the August rally, NASDAQ issues have clearly pulled ahead of the Dow on a 52-week basis. The NASDAQ market, up 3.1%, led the way during the last two weeks. The Dow industrials pushed ahead 2.4%, but the rest of the NYSE did not fare as well—up only 1.3%. Meanwhile, the Forbes 500 and the Wilshire performed pretty much in line with the average NYSE issue, with a 1.5% gain. But the Amex—a victim of the hate-love relationship with energy—added only 0.1%.

Over the last four weeks the P/E multiple on the Wilshire went from 11.5 to 12, a 4.3% gain, while the Wilshire index rose only 1.2%. This happened because trailing 12-month earnings on the Wilshire are down some 3.1% from a month ago. More firms are expected to report bleak fourth-quarter earnings. Until a recovery is clearly in sight, investors should question how high the market will allow the earnings multiple on the Wilshire to rise after six months of anticipatory upward pricing.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones Industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.2	0.6	0.2	0.7	1.0	5.5
in last 52 weeks	24.9	23.2	26.7	24.3	28.2	33.7

Stock performance based on five key investor yardsticks

Percent change	Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	10.7	5.1	9.0	8.7	2.3	10.2	14.0	2.6	2.8	10.4
in last 52 weeks	65.9	36.2	42.1	78.8	30.0	74.7	79.6	36.6	28.6	54.6

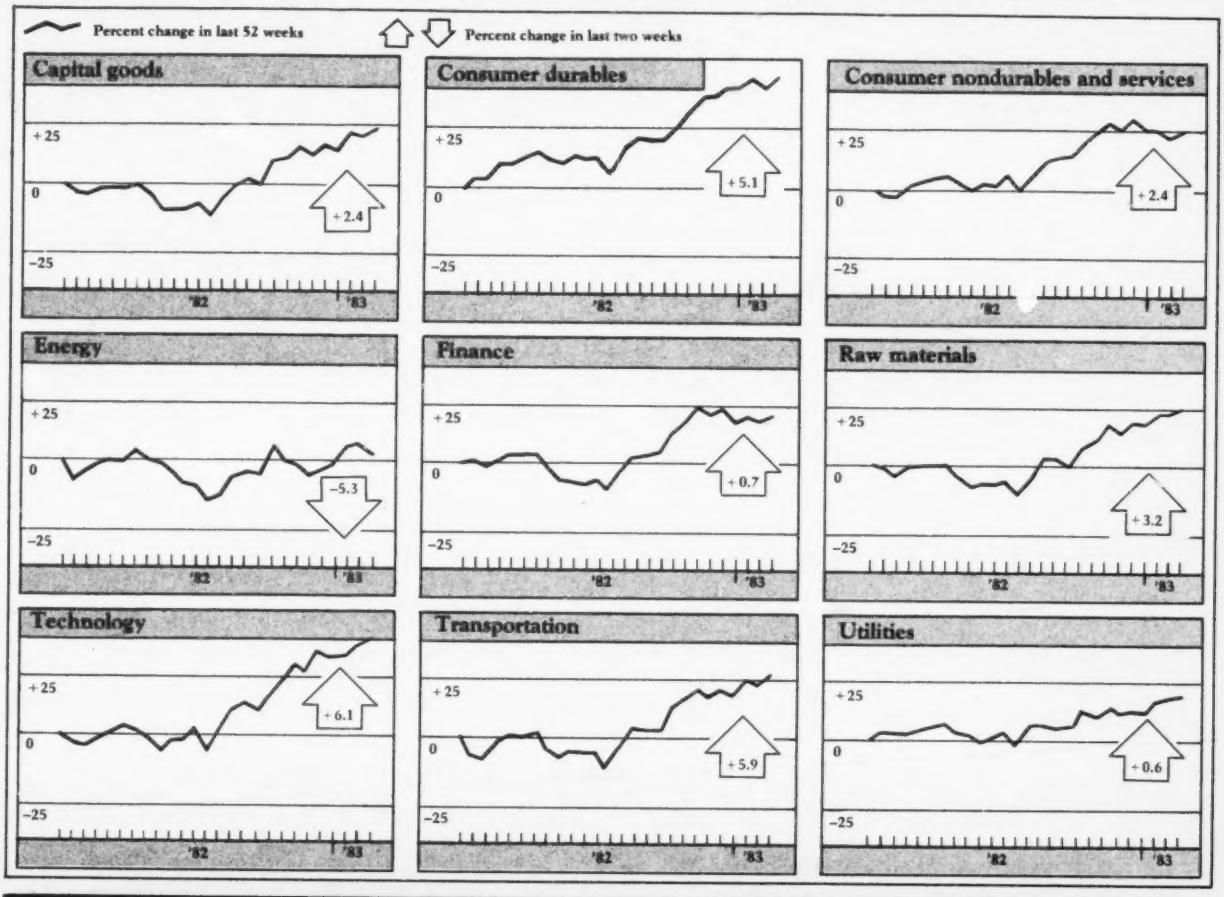
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/4/83 Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

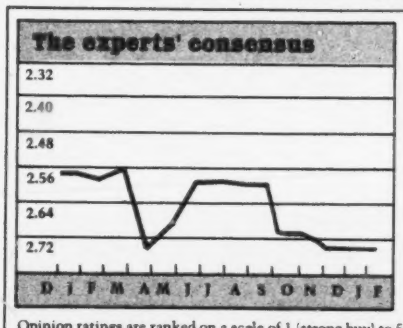
Computer heaven. Transportation issues—principally the airlines—feasted recently on the prospect of lower fuel costs. Energy shares went back on a diet and shed another 5.3% over the two-week period. While many sectors show strong 52-week gains (except energy shares, now off 4.2%), it is the technology sector that has shown the greatest recent strength.

Technology issues had the strongest two-week and four-week showings of all, with gains of 6.1% and 8.1%, respectively. Numerous NYSE and Amex computer issues hit new 52-week highs. On the NASDAQ, nine of the ten most active issues of the last week were computer-related. NASDAQ leader, Apple Computer, is really beginning to swing some weight. So far in 1983 Apple is up almost 38%, after a 66% rise from August to December, and now has a market capitalization of almost $2.4 billion.



What The Analysts Think

Nine to five. Last July, when we first began monitoring analysts' buy/sell opinions on the individual sectors, the raw materials group was in ninth place. Within the last two weeks raw materials moved up to fifth. With commodities markets rising, it may be that better days are not far off for many depressed natural resource issues.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Energy	2.62	1	1
2	Technology	2.63	2	2
3	Utilities	2.65	3	4
4	Capital goods	2.70	4	3
5	Raw materials	2.81	7	7
6	Transportation	2.81	6	6
7	Finance	2.82	5	5
8	Consumer nondurables	2.86	8	8
9	Consumer durables	2.93	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 2/4/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Big institutional investors are married to big-capitalization stocks. But they really love a very different set of companies.

The other favorite 50

THERE'S A FLAW in the usual lists of institutional favorites: They rank only total dollar holdings. Obviously, that means high-capitalization stocks predominate. IBM's market value is $54 billion, and everybody knows it's a good company; so, of course, institutions own a lot of it. Similarly with AT&T, Exxon or GE. You could write most of the list in your sleep.

There's another, more interesting way to cut the apple: Which companies do institutional investors like so well that, regardless of capitalization, they have bought up most of the available shares? Put it this way: What are the stocks they really want, aside from those that can safely absorb huge amounts of investment money?

To generate the list, we sought the aid of Micro/Scan, a product of ISYS Corp. in Cambridge, Mass. This product makes it possible to screen a 52-item financial database. The 1,400 stocks cover virtually all the companies with important institutional followings. These are not flukes; companies did not make this list if counting of controlling blocks was necessary to put them on. They are here because of passive investors.

Below, the institutions' favorite 50 are shown by percentage of ownership. Banks, mutual funds and other professional money managers own a minimum of 64% of the shares in each of these companies. In contrast, the average company depicted by the database produced by the Ford Investment Service is 31%-owned by institutional holders.

Nor are they here for being hot little high-tech companies with no float. Most of the 50 made the FORBES ranking of the 500 largest companies by market value last May; 20 of them were capitalized at over $1 billion then, and the market has gone up substantially since. A few, like Aetna, make the list whether you count dollars or percentage of ownership.

Nevertheless, this is an entirely different picture of what institutions want. Gone are General Motors and Ford. Gone also are all the oil companies except Lubrizol, number 35 here. Even IBM doesn't make the grade (institutions hold only 54%).

Which ones do? A great variety of

Bought up by the big boys

Institutional investors are so anxious to own shares in these companies that they have acquired most of the outstanding stock. Most of the shares have been fun to own until now, but remember Mattel.

Company	—% held by funds— recently	May 1982	Price— recent	12 months % change	—Latest 12 months— EPS	P/E	5-year earnings growth rate	Current return on equity	Shares outstanding (millions)
AMP	90%	87%	73½	47%	$ 3.50	21	10.7%	17.3%	36
Northwest Airlines	85	81	47¼	107	0.20	NM	–22.8	0.5	22
Lockheed	83	52	90	80	10.96	8	–44.6	NM	18
Gannett	80	77	57½	76	3.35	17	13.8	19.4	53
Rite Aid	79	46	45½	65	3.13	15	16.4	17.7	14
Digital Equipment	78	78	121⅞	38	6.95	18	18.2	11.5	55
Mattel	78	47	14⅝	15	3.59	4	8.4	26.8	17
Nalco Chemical	77	74	30⅛	24	1.77	17	10.8	19.7	40
General Re	76	76	56½	39	4.56	12	16.8	18.6	45
Associated Dry Goods	74	72	44¼	57	3.83	12	6.7	8.5	14
Bausch & Lomb	74	64	41⅛	–16	2.48	17	–1.2	4.9	12
Ryder System	74	64	47⅝	78	3.85	12	9.1	14.5	21
ACF Industries	72	71	33⅜	–8	5.36	6	3.5	11.5	8
American Broadcasting	72	68	54	64	5.65	10	6.5	15.0	29
Consolidated Freightways	72	75	49⅛	45	4.34	11	10.0	11.5	13
Capital Cities Comm	71	68	125	71	6.85	18	17.2	17.0	13
Texas Instruments	71	66	176	123	5.86	30	1.9	10.1	24
Automatic Data Proc	70	70	35⅛	41	1.73	20	14.6	15.4	34
Data General	70	72	48	–9	1.83	26	–4.4	4.6	11
Delta Air Lines	70	62	46	80	–0.07	NM	–13.8	NM	40

NM: Not meaningful.

Sources: Micro/Scan: ISYS Corp; Standard & Poor's.

Bought up by the big boys

Company	—% held by funds— recently	May 1982	Price— recent	12 months % change	—Latest 12 months— EPS	P/E	5-year earnings growth rate	Current return on equity	Shares outstanding (millions)
Eli Lilly	70%	67%	62¾	10%	$5.25	12	9.9%	19.1%	76
McDonald's	70	68	59	42	4.88	12	15.6	18.1	60
Medtronic	70	66	50¾	37	3.17	16	20.3	18.0	16
Aetna Life & Casualty	69	61	34⅜	–23	6.14	6	4.6	15.6	94
Watkins-Johnson	69	67	64½	132	2.66	24	8.2	10.8	3
Betz Laboratories	68	65	36¾	25	1.93	19	13.6	21.2	16
Chemed	68	62	33⅝	45	1.80	19	NA	27.7	8
E-Systems	68	68	46½	96	2.21	21	2.8	17.0	14
Honeywell	68	67	90⅜	22	12.66	7	14.2	13.6	22
Diebold	67	64	81¾	54	4.73	17	27.1	21.1	9
Armstrong World	66	57	22⅛	54	0.76	29	–6.4	3.3	25
Baxter Travenol Labs	66	63	47⅝	36	2.50	19	14.8	15.5	71
Chubb	66	62	47½	4	6.18	8	4.0	11.1	12
Dun & Bradstreet	66	62	102¾	61	4.89	21	16.4	27.2	27
Lubrizol	66	63	19½	–11	1.51	13	2.7	12.3	39
Ogilvy & Mather	66	64	47¾	55	3.46	14	5.4	15.0	4
Travelers	66	65	23⅞	4	3.67	7	5.0	10.5	84
Whirlpool	66	64	44	73	3.26	13	3.7	13.6	36
AMR	65	64	21¾	110	–1.87	NM	–40.5	NM	35
Continental Illinois	65	62	21⅜	–40	2.92	7	0.5	6.8	40
General Mills	65	62	46⅛	35	4.56	10	11.1	17.5	50
RH Macy	65	63	59⅞	128	4.39	14	17.1	17.5	33
Philip Morris	65	64	58¾	20	6.12	10	16.1	20.2	126
Raychem	65	67	74	40	3.14	24	NA	10.6	9
SmithKline Beckman	65	64	67⅞	0	5.51	12	25.3	26.5	83
VF Corp	65	69	41½	127	4.60	9	21.3	24.4	16
American Hosp Supply	64	52	39⅞	47	2.69	15	13.6	15.9	73
Citicorp	64	63	35¼	40	6.03	6	8.7	16.1	126
Walt Disney	64	60	67⅜	38	3.01	22	4.4	7.8	33
Monsanto	64	66	83⅝	23	8.92	9	0.7	10.4	40

NA: Not available. NM: Not meaningful.

Sources: Micro/Scan; ISYS Corp; Standard & Poor's.

fundamentally sound companies, well known either generally or in their industries. For obvious reasons, institutions like to play it safe.

Consider the hit parade leader, AMP, Inc., a nice company near Harrisburg, Penna. that makes electrical connectors, $1.2 billion worth last year. Connectors? It seems one of the big markets for connectors is computers; the more computers there are, the more connectors are needed. And personal computers are proliferating like crazy. So institutions own a startling 90% of this stock. Not even a poor December quarter—it only happens in recessions—was able to shake them loose.

Then there's Northwest Airlines, a bare-bones-overhead, union-free airline that has not been shy about keeping the northwest quarter of the U.S. largely to itself as a market. Institutions like that one, 85% worth.

By industry, the pattern is scattered. Three airlines, a newspaper chain, a financial publisher, several insurance companies, two broadcasters, several computer-related companies, an ad agency (Ogilvy & Mather), an apparel manufacturer (VF Corp.), McDonald's—nothing if not eclectic.

They haven't been doing badly at all. Collectively, the 50 have gone up 44% in the past 12 months, while the NYSE index rose 23.1%. Their collective return on equity (excluding two deficits) stands at 14.2%, vs. 12.7% for the 1,002 companies reviewed last month in the FORBES 35th Annual Report on American Industry. They cost more, though: The average P/E is around 15, compared with the current 12 on the Wilshire index of 5,000 stocks.

Some of the gains last year were big: AMR, VF Corp. (Lee blue jeans, which has sailed through the recession with earnings gains), R.H. Macy, Watkins-Johnson and Texas Instruments all gained at least 100%.

Money managers are hardly infallible, though: Six of the 50 were down for the year. Why would they want to own so much of Continental Illinois, anyway?

For most of these companies, institutional ownership has been rather stable. But a few noticeable changes have taken place recently. Lockheed, now at 83%, is up from 52% in May—a 31-point gain in just six months. Evidently the institutions were pleased enough when this largest U.S. defense contractor finally discontinued its loss-plagued L-1011 commercial jetliner to sink over $300 million into this one stock alone.

Rite Aid was another big winner. The institutions raised their position on this fast-growing, very profitable drugstore chain from 46% to 79% and in the meantime bid the stock price up 65%.

Institutions don't guarantee their own success, though: They went from 47% to 78% of Mattel, the toy and video game maker, and ran it up to 31, only to see it collapse to around 15. The original 47% are still ahead of the game, but it must have been a chastening experience for most of the newcomers.

Which makes a point of caution about these companies worth remembering. Even though heavy institutional sponsorship is a wonderful thing on the way up, if the romance ever goes sour you will be far happier for having sold too soon. When the end comes, the big boys can draw a big line downward on the price charts very quickly. ■